

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CENTER RIDGE	)	
WATER SYSTEM FOR AN ADJUSTMENT OF	)	
RATES PURSUANT TO THE ALTERNATIVE	)	CASE NO. 96-003
RATE FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	

O R D E R

On January 2, 1996, Center Ridge Water System ("Center Ridge") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Center Ridge's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 25th day of January, 1996.

ATTEST:

PUBLIC SERVICE COMMISSION

  
Executive Director

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CENTER RIDGE WATER	)	
SYSTEM FOR A RATE ADJUSTMENT	)	
PURSUANT TO THE ALTERNATIVE RATE	)	CASE NO. 96-003
FILING PROCEDURE FOR SMALL UTILITIES	)	

STAFF REPORT

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Revenue Requirements  
Division of Financial Analysis

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Chief  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

STAFF REPORT  
ON  
CENTER RIDGE WATER SYSTEM  
CASE NO. 96-003

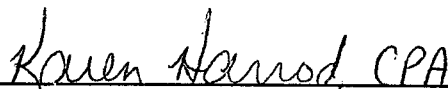
On January 2, 1996, Center Ridge Water System ("Center Ridge") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 59 percent, an increase in annual operating revenues of \$4,456. Center Ridge requested assistance from Commission Staff ("Staff") in the preparation of its Alternative Rate Filing Application as allowed pursuant to 807 KAR 5:076, Section 2. In order to assist in the preparation of this application, Staff performed a limited financial review of Center Ridge's test year operations, the calendar year ended December 31, 1994.

The scope of the review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

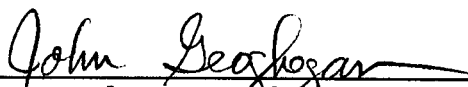
Karen Harrod of the Commission's Division of Financial Analysis performed the limited review on September 6, 1995. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachment C, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

A copy of Center Ridge's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that Center Ridge be allowed to increase its annual operating revenues by the requested amount of \$4,456. The rate contained in Attachment C will achieve Staff's recommended level of revenue.

Signatures

Handwritten signature of Karen Harrod in cursive script.

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Revenue Requirements  
Financial Analysis Division

Handwritten signature of John Geoghegan in cursive script.

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Principal  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

ATTACHMENT A  
STAFF REPORT CASE NO. 96-003

CENTER RIDGE WATER SYSTEM  
STATEMENT OF OPERATIONS  
Test Year Ended 12/31/94

	<u>Test Year</u>	<u>Recommended Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 7,632	\$ (48) (1)	\$ 7,584
Operating Expenses			
Owner/Manager Fee	\$ -0-	\$ 3,600 (2)	\$ 3,600
Purchased Power	1,254	(56) (3)	1,198
Chemicals	145		145
Materials & Supplies	1,174	726 (4)	1,900
Contractual Services	1,095		1,095
Transportation	2,083	(1,521) (5)	562
Insurance	89		89
Miscellaneous	1,650		1,650
Taxes other than Income	286	(209) (6)	77
Depreciation	<u>419</u>	<u>(419) (7)</u>	<u>-0-</u>
Total Operating Expenses	<u>\$ 8,195</u>	<u>\$ 2,121</u>	<u>\$ 10,316</u>
Operating Income	\$ (563)	(2,169)	(2,732)
Interest Expense	<u>491</u>	<u>(491)</u>	<u>-0-</u>
Income Available for Debt Service	<u>\$ (1,054)</u>	<u>\$ (1,678)</u>	<u>\$ (2,732)</u>

(1) Operating Revenues - Water Sales

This account was decreased by \$48 to reflect normalized test year water sales, calculated as follows:

Monthly Flat Rate	\$ 8.00
Number of Customers at Year End	<u>x 79</u>
Normalized Test Year Revenue	<u>\$7,584</u>

(2) Owner/Manager Fee

For the test year Center Ridge did not report an owner/manager fee expense. This fee is routinely allowed by the Commission for the owners of small, privately-owned water companies. Therefore, Staff recommends the \$3,600 owner/manager fee expense be allowed for rate-making purposes.

- (3) Purchased Power  
This account has been decreased by \$56 to omit a payment made to Murray Electric that was incorrectly included in Center Ridge's test year expenses.
- (4) Materials & Supplies  
This account has been increased to properly reflect testing expenses to be incurred by Center Ridge. Based on a quote from McCoy & McCoy, the total estimated cost of running all tests required pursuant to 401 KAR 8:010 - 8:700 would be \$1,473. This results in a \$726 increase over test year testing expense of \$747.
- (5) Transportation  
This account has been decreased to eliminate vehicle expenses of \$2,083 and to include a mileage allowance for the plant operator. The operator is required to make the 36 mile round trip to the plant a minimum of one time per week. Based on the federal mileage rate of \$.30 per mile, this would result in a mileage allowance of \$562 and a net decrease to transportation expense of \$1,521.
- (6) Taxes other than Income  
This account has been decreased by \$209 to eliminate payments made to the Calloway County Board of Education for school utility tax. Center Ridge is simply acting as an agent of the taxing authorities to collect and remit this tax. Accordingly, these monies should not be recorded as an operating revenue or expense of the company.
- (7) Depreciation Expense  
This account has been decreased by \$419 to eliminate test year depreciation expense. This expense was recorded for the purpose of depreciating a truck used by the operator of Center Ridge. Truck-related expenses have been disallowed for rate-making purposes in lieu of a mileage allowance that has been included to offset travel expenses for the operator.
- (8) Interest Expense  
This account has been decreased by \$491 to eliminate test year interest expense. This expense was incurred for the purpose of making loan payments for a truck used by the operator of Center Ridge. Truck-related expenses have been disallowed for rate-making purposes in lieu of a mileage allowance that has been included to offset travel expenses for the operator.

ATTACHMENT B  
STAFF REPORT CASE NO. 96-003

CENTER RIDGE WATER SYSTEM  
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$ 10,316
Divided by: Operating Ratio	<u>.88</u>
Required Operating Revenues before Income Taxes	\$ 11,723
Less: Adjusted Operating Expenses	<u>10,316</u>
Revenue Subject to Income Tax	1,407
Multiplied by: Gross-Up Factor	<u>1.2255</u>
Net Operating Income Inclusive of Provision for Income Taxes	\$ 1,724
Add: Adjusted Operating Expenses	<u>10,316</u>
Revenue Requirement	\$ 12,040
Less: Normalized Test Year Revenue	<u>7,584</u>
Recommended Revenue Increase	<u>\$ 4,456</u>

ATTACHMENT C  
STAFF REPORT CASE NO. 96-003

CENTER RIDGE WATER SYSTEM  
RECOMMENDED RATE SCHEDULE

Center Ridge currently has a flat monthly rate. No change was proposed to the current rate structure. Staff recommends that the flat monthly rate structure be accepted.

Monthly Rate

\$12.75